

SECRET

DPD-TL2G-39

29 October 1959

MEMORANDUM FOR: Deputy Director (Support)

SUBJECT : Reimbursement Flying Hour Rate Under Tab-6

1. This paper contains a recommendation for the Deputy Director (Support). Such a recommendation is found in paragraph 9.

2. At the request of the Deputy Director (Support), Development Projects Division has made a study of the flying hour rates now existing between the Agency and the Air Force. The motive behind this study is basically to determine if the method used to charge the Agency is equitable, particularly in those cases where the aircraft is Agency owned. To accomplish this, it will be necessary to examine:

- (a) the basis for the charges;
- (b) the nature of the arrangement between the Air Force and the Agency regarding the planes (leased versus Agency owned and Agency operated); and
- (c) a comparative study of the costs in line with those of the commercial airlines.

3. The rates in question were established by the MATS Industrial Fund and apply to all Government users of Air Force planes, not merely CIA. A copy of the current schedule is attached. According to information received from the Air Force in a previous study of this subject, the following breakdown was made of that portion of each flight is charged against the Agency under Tab-6 provisions:

(a) Reimbursable:

(1) Crew Per Diem	2.0%
(2) FUEL	10.3%
(3) Base Maintenance	9.7%
(4) Depot	9.1%
(5) Attrition	2.3%
	10.0%
TOTAL	34.2%

SECRET

SECRET

(b) Non-reimbursable:

(1) Crew Salaries	9.2%
(2) Depreciation	41.2%
(3) Base Support	12.0%
(4) Miscellaneous	<u>9.6%</u>
TOTAL	69.8%

According to Air Force calculations, if it costs a specific amount to maintain, fly and support an aircraft, only that portion of it noted above as reimbursable is charged against the Agency.

4. The next step is to examine these rates in the light of the aircraft involved. One type of use of Air Force equipment is bailment. In this case the Agency lays a requirement on the Air Force to provide a particular type plane for a specific mission duration of which is generally established in advance. On these flights the Agency neither owns the aircraft nor does it detail a crew to fly it. The second type of use is Agency owned aircraft, flown by Air Force crews. At present, examples of such aircraft are the three at Kadana, Okinawa, and the three in Wiesbaden, Germany. A third type of use is now coming into being and as a matter of fact, already exists at Eglin Air Force Base, Florida. This is the case of not only the aircraft being Agency owned but the crew and all personnel maintaining the aircraft being actually detailed to CIA.

5. It is appropriate at this point to note the average flying-hour rates on commercial airlines. Later in this paper these rates will be used to show a comparison with Tab-6 charges. These rates have been supplied by the local manager of CAT and do not reflect the rates of his organization but actually the industry as a whole. A C-118 may be chartered for \$2.00 per mile and a C-54 for \$1.50 per mile. Using the Tokyo to Manila run for example, the 1,757 miles by C-118 would cost \$3,514 under commercial charter and \$2,932 under Tab-6. A C-54 under commercial charter would cost \$2,635 at \$1.50 per hour and \$1,890 under Tab-6. The difference in one is \$532 and the other \$745, both in favor of the Tab-6 rate. However, while this on the surface appears to vindicate the Tab-6 schedules, it will be seen from examination that in only one case, that of bailment, is this really true.

(a) It is generally agreed that where bailment is involved the current rates are acceptable. Obviously when compared with commercial rates we pay less. It should be pointed out at this point that the minimum daily charge rate, which is in effect a

SECRET

SECRET

surcharge, is rarely, if ever, applied against the Agency because practically all of the flights far exceed the required maximum use. As a matter of fact, an informal practice on the part of the Air Force has been not to make any surcharge billings due to the large number of flying hours accumulated by the Agency.

(b) The next consideration is Agency owned aircraft flown by Air Force. While it may be true that the Agency is only assessed 34.2% of the cost incurred by the Air Force in flying, it should be noted that, should anything happen to destroy the aircraft, the entire cost is levied against the Agency. Further, as the plane gets older, the depreciation which is a high figure, shown by the Air Force as non-reimbursable and ostensibly favorable to us, represents in fact a loss of Agency, not Air Force, assets. The Air Force points out that the advantages of their crews flying an Agency owned aircraft gives us 100% assurance that the plane will be available when and where we want it and will carry out the required mission. This may be true but as the Agency fast takes over detachments formerly under Air Force control this argument will cease to have validity.

(c) The next step is to compare Tab-6 rates for Agency owned aircraft with commercial costs. As in the case of bailment Tab-6 costs are cheaper but it should be noted that the hourly figure charged by the commercial airline is all we would be required to pay. In the event of damage or loss of a commercial aircraft, the Agency pays nothing, but under the current agreement with the Air Force the Agency would have to buy another aircraft in the case of loss of an Agency owned aircraft. The point here is that the Air Force figure, when compared with the commercial rate, is not in reality below it when it is realized that a C-118, for example, depreciates at a degree of 1% per month. Stated in other words, the Agency is losing \$12,000 per month in depreciation, a sum that would not enter the picture under commercial charter.

(d) The comparison with commercial airlines should not be construed as a recommendation to convert to this method. For cover and security reasons this is out of the question. It is possible to use commercial for logistics or support type activity but our concern here is basically operational requirements and covers the aircraft stationed at Okinawa, Wiesbaden and Eglin Air Force Base.

5. The final type of use is that presently existing at Eglin Air Force Base and planned for Kadena, namely, Agency owned and operated aircraft. If the present method of reimbursement prevails, not only will the Agency be paying the 34.2% now charged but will also be directly responsible for crew salaries, base support and presumably

3
SECRET

SECRET

miscellaneous costs. [REDACTED]

25X1
25X1

8. (a) In light of the fast-growing absorption of Air Force detachments under CIA control it is obvious that adjustments are necessary in the present reimbursement schedule. In addition, we must conclude that there should be a difference in rates in cases of Agency owned aircraft versus bailment. It is felt that the 34.2% figure, while applicable in bailment cases, clearly should not be followed in the other instances. The subject of change of rates has been reviewed in the past with Air Force representatives who, while admitting that their loss was less on aircraft that the Agency owned, nonetheless felt that we could not justify a reduction in rates based on the apparently small assessment of 34.2%. Recent developments, we believe, refute this argument. While willing to accept present procedures for bailment we must conclude that revision is necessary in the case of Agency owned and Agency operated aircraft.

(b) Finally it should be noted that the rates are continually subject to review by the Industrial Funding Board. The attached schedule shows various changes made this year. However our concern is not primarily with the rate itself but with the question of whether or not we should be charged any flying rate in certain instances (less POL and spare parts, of course).

9. It is accordingly recommended that the Tab-6 rates relative to flying hours reimbursement be re-evaluated by the Air Force and CIA jointly, and a determination made regarding their application.

JAMES A. CUSHMAN, JR.
Acting Chief, DFD

SECRET